

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2022**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission File Number: 001-13387**

**MEGA MATRIX CORP.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**94-3263974**

(I.R.S. Employer  
Identification Number)

**3000 El Camino Real,  
Bldg. 4, Suite 200, Palo Alto, CA**

(Address of principal executive offices)

**94306**

(Zip Code)

**(650) 340-1888**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Securities registered pursuant to Section 12(b) of the Act:

| <b>Title of Each Class</b>                | <b>Trading Symbol(s)</b> | <b>Name of each exchange on which registered</b> |
|-------------------------------------------|--------------------------|--------------------------------------------------|
| Common Stock, par value \$0.001 per share | MTMT                     | NYSE American Exchange LLC                       |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

|                         |                                     |                           |                                     |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/>            | Accelerated filer         | <input type="checkbox"/>            |
| Non-accelerated filer   | <input checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
|                         |                                     | Emerging growth company   | <input type="checkbox"/>            |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of registrant’s common stock outstanding as of August 22, 2022 was 22,084,055.

---

---

**MEGA MATRIX CORP.****FORM 10-Q****For the Quarterly Period Ended June 30, 2022****Table of Contents**

|                                                                                                                      | <u>Page No.</u> |
|----------------------------------------------------------------------------------------------------------------------|-----------------|
| <a href="#"><u>SPECIAL NOTE REGARDING FORWARD- LOOKING STATEMENTS</u></a>                                            | ii              |
| <br><a href="#"><u><b>PART I - Financial Information</b></u></a>                                                     |                 |
| ITEM 1. <a href="#"><u>FINANCIAL STATEMENTS (UNAUDITED)</u></a>                                                      | 1               |
| ITEM 2. <a href="#"><u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></a> | 21              |
| ITEM 3. <a href="#"><u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></a>                            | 28              |
| ITEM 4. <a href="#"><u>CONTROLS AND PROCEDURES</u></a>                                                               | 28              |
| <br><a href="#"><u><b>PART II - Other Information</b></u></a>                                                        |                 |
| ITEM 1. <a href="#"><u>LEGAL PROCEEDINGS</u></a>                                                                     | 29              |
| ITEM 1A. <a href="#"><u>RISK FACTORS</u></a>                                                                         | 29              |
| ITEM 2. <a href="#"><u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u></a>                           | 29              |
| ITEM 3. <a href="#"><u>DEFAULTS UPON SENIOR SECURITIES</u></a>                                                       | 29              |
| ITEM 4. <a href="#"><u>MINE SAFETY DISCLOSURES</u></a>                                                               | 29              |
| ITEM 5. <a href="#"><u>OTHER INFORMATION</u></a>                                                                     | 29              |
| ITEM 6. <a href="#"><u>EXHIBITS</u></a>                                                                              | 29              |
| <br><a href="#"><u>SIGNATURES</u></a>                                                                                | <br>30          |

## **SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements in this report other than statements of historical fact are forward-looking statements for purposes of these provisions, including any statements of the Company’s plans and objectives for future operations, the Company’s future financial or economic performance (including known or anticipated trends), and the assumptions underlying or related to the foregoing. Statements that include the use of terminology such as “may,” “will,” “expects,” “plans,” “anticipates,” “estimates,” “potential,” or “continue,” or the negative thereof, or other comparable terminology, are forward-looking statements. These risks and uncertainties include, but are not limited to, the factors described in the section captioned “Risk Factors” in our Annual Report on Form 10-K (“Form 10-K”), filed with the Securities and Exchange Commission (SEC) on March 30, 2022. Forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. You should read these factors and the other cautionary statements made in this report and in the documents we incorporate by reference into this report as being applicable to all related forward-looking statements wherever they appear in this report or the documents we incorporate by reference into this report. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements.

Any forward-looking statements contained in this Quarterly Report are only estimates or predictions of future events based on information currently available to our management and management’s current beliefs about the potential outcome of future events. Whether these future events will occur as management anticipates, whether we will achieve our business objectives, and whether our revenues, operating results or financial condition will improve in future periods are subject to numerous risks. There are a number of important factors that could cause actual results to differ materially from the results anticipated by these forward-looking statements. These important factors include those that we discuss under the heading “Risk Factors” in this Quarterly Report and in other reports filed from time to time with the SEC that are incorporated by reference into this Quarterly Report. You should read these factors and the other cautionary statements made in this Quarterly Report and in the documents which we incorporate by reference into this Quarterly Report as being applicable to all related forward-looking statements wherever they appear in this Quarterly Report or the documents we incorporate by reference into this Quarterly Report. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements.

All forward-looking statements and descriptions of risks included in this report are made as of the date hereof based on information available to the Company as of the date hereof, and except as required by applicable law, the Company undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. You should, however, consult the risks and other disclosures described in the reports the Company files from time to time with the SEC after the date of this report for updated information.

### **NOTE**

On December 30, 2021, we implemented a five (5) for one (1) forward stock split (the “Forward Stock Split”) of our issued and outstanding common stock, par value \$0.001 per share. References to our common stock in this report have been adjusted to give effect to the Forward Stock Split.

On March 25, 2022, we changed our name from Aerocentury Corp. to Mega Matrix Corp. to better reflect our expansion into Metaverse and Gamefi businesses. All references in this Quarterly Report, unless the context indicates otherwise, to “AeroCentury” refers to AeroCentury Corp. and the “Company,” “we,” “us,” and “our” refers to AeroCentury together with its consolidated subsidiaries prior to March 25, 2022 and renamed “Mega Matrix Corp.” commencing on March 25, 2022, and, except where expressly noted otherwise or the context otherwise requires, its consolidated subsidiaries.

**PART I - Financial Information****Item 1. Financial Statements**

**MEGA MATRIX CORP.**  
(formerly “AeroCentury Corp.”)  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(US Dollar, except for share and per share data, unless otherwise stated)**

|                                                                                                                                                    | <b>June 30,<br/>2022</b> | <b>December 31,<br/>2021</b> |
|----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|------------------------------|
| <b>ASSETS</b>                                                                                                                                      |                          |                              |
| Cash and cash equivalents                                                                                                                          | \$ 3,967,400             | \$ 7,380,700                 |
| Digital assets                                                                                                                                     | 314,500                  | -                            |
| Taxes receivable                                                                                                                                   | 1,109,000                | 1,235,200                    |
| Prepaid expenses and other assets                                                                                                                  | 490,500                  | 645,100                      |
| Goodwill                                                                                                                                           | 4,688,600                | 4,688,600                    |
| Intangible assets                                                                                                                                  | 888,900                  | -                            |
| Deposit for intangible assets                                                                                                                      | -                        | 1,000,000                    |
| <b>Total assets</b>                                                                                                                                | <b>\$ 11,458,900</b>     | <b>\$ 14,949,600</b>         |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                      |                          |                              |
| Liabilities:                                                                                                                                       |                          |                              |
| Accounts payable and accrued expenses                                                                                                              | \$ 1,783,400             | \$ 2,961,300                 |
| Accrued payroll                                                                                                                                    | 168,500                  | 161,300                      |
| Income taxes payable                                                                                                                               | 14,600                   | 13,700                       |
| <b>Total liabilities</b>                                                                                                                           | <b>1,966,500</b>         | <b>3,136,300</b>             |
| Commitments and contingencies (Note 12)                                                                                                            |                          |                              |
| <b>Equity:</b>                                                                                                                                     |                          |                              |
| Preferred stock, \$0.001 par value, 2,000,000 shares authorized, no shares issued and outstanding                                                  | -                        | -                            |
| Common stock, \$0.001 par value, 40,000,000 shares authorized, 22,084,055 and 22,084,055 shares outstanding at June 30, 2022 and December 31, 2021 | 22,100                   | 22,100                       |
| Paid-in capital                                                                                                                                    | 16,982,700               | 16,982,700                   |
| Accumulated deficit                                                                                                                                | (6,849,300)              | (4,954,400)                  |
| <b>Total Mega Matrix Corp. (formerly “AeroCentury Corp.”) stockholders’ equity</b>                                                                 | <b>10,155,500</b>        | <b>12,050,400</b>            |
| Non-controlling interests                                                                                                                          | (663,100)                | (237,100)                    |
| <b>Total equity</b>                                                                                                                                | <b>9,492,400</b>         | <b>11,813,300</b>            |

**Total liabilities and equity****\$ 11,458,900****\$ 14,949,600**

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**MEGA MATRIX CORP.**  
(formerly “AeroCentury Corp.”)  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
**(US Dollar, except for share and per share data, unless otherwise stated)**

|                                                                                    | <b>Successor</b>      | <b>Predecessor</b>    | <b>Successor</b>      | <b>Predecessor</b>    |
|------------------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                                                                    | <b>Three Months</b>   | <b>Three Months</b>   | <b>Six Months</b>     | <b>Six Months</b>     |
|                                                                                    | <b>Ended</b>          | <b>Ended</b>          | <b>Ended</b>          | <b>Ended</b>          |
|                                                                                    | <b>June 30,</b>       | <b>June 30,</b>       | <b>June 30,</b>       | <b>June 30,</b>       |
|                                                                                    | <b>2022</b>           | <b>2021</b>           | <b>2022</b>           | <b>2021</b>           |
| <b>Revenues and other income:</b>                                                  |                       |                       |                       |                       |
| Gamefi revenue                                                                     | \$ 3,200              | \$ -                  | \$ 326,800            | \$ -                  |
| Operating lease revenue                                                            | -                     | 1,470,300             | 120,000               | 4,207,600             |
| Net gain (loss) on disposal of assets                                              | -                     | 6,800                 | -                     | (194,900)             |
| Other income                                                                       | -                     | 3,600                 | -                     | 2,200                 |
|                                                                                    | <b>3,200</b>          | <b>1,480,700</b>      | <b>446,800</b>        | <b>4,014,900</b>      |
| Cost of revenues                                                                   | (533,300)             | -                     | (561,100)             | -                     |
| <b>Gross (loss) profit</b>                                                         | <b>(530,100)</b>      | <b>1,480,700</b>      | <b>(114,300)</b>      | <b>4,014,900</b>      |
| <b>Expenses:</b>                                                                   |                       |                       |                       |                       |
| Impairment of digital assets                                                       | 8,300                 | -                     | 8,300                 | -                     |
| Impairment in value of aircraft                                                    | -                     | 2,264,000             | -                     | 4,204,400             |
| Interest                                                                           | -                     | 1,900                 | 120,000               | 1,916,600             |
| Professional fees, general and administrative and other                            | 449,500               | 119,600               | 1,001,400             | 1,714,900             |
| Depreciation                                                                       | -                     | 466,600               | -                     | 1,165,800             |
| (Reversal) provision of bad debt expense                                           | -                     | 326,000               | (300,000)             | 1,147,000             |
| Salaries and employee benefits                                                     | 603,800               | 486,700               | 1,236,300             | 993,100               |
| Insurance                                                                          | 100,500               | 216,300               | 186,700               | 464,100               |
| Maintenance                                                                        | -                     | 94,500                | -                     | 239,500               |
| Other taxes                                                                        | 2,800                 | 25,600                | 2,800                 | 51,100                |
| Reorganization costs                                                               | -                     | 952,800               | -                     | 952,800               |
| PPP loan forgiveness                                                               | -                     | (279,200)             | -                     | (279,200)             |
| <b>Total expenses</b>                                                              | <b>1,164,900</b>      | <b>4,674,800</b>      | <b>2,255,500</b>      | <b>12,570,100</b>     |
| <b>Loss before income tax provision</b>                                            | <b>(1,695,000)</b>    | <b>(3,194,100)</b>    | <b>(2,369,800)</b>    | <b>(8,555,200)</b>    |
| Income tax provision                                                               | (2,600)               | (3,700)               | (4,100)               | (52,900)              |
| <b>Net loss</b>                                                                    | <b>\$ (1,697,600)</b> | <b>\$ (3,197,800)</b> | <b>\$ (2,373,900)</b> | <b>\$ (8,608,100)</b> |
| <b>Less: Net loss attributable to non-controlling interests</b>                    | <b>339,000</b>        | <b>-</b>              | <b>479,000</b>        | <b>-</b>              |
| <b>Net loss attributable to Mega Matrix Corp. (formerly “AeroCentury Corp.”)’s</b> | <b>\$ (1,358,600)</b> | <b>\$ (3,197,800)</b> | <b>\$ (1,894,900)</b> | <b>\$ (8,608,100)</b> |

**shareholders****Loss per share:**

|          |           |           |           |           |
|----------|-----------|-----------|-----------|-----------|
| Basic*   | \$ (0.06) | \$ (0.41) | \$ (0.09) | \$ (1.11) |
| Diluted* | \$ (0.06) | \$ (0.41) | \$ (0.09) | \$ (1.11) |

**Weighted average shares used in loss per share computations:**

|          |            |           |            |           |
|----------|------------|-----------|------------|-----------|
| Basic*   | 22,084,055 | 7,729,420 | 22,084,055 | 7,729,420 |
| Diluted* | 22,084,055 | 7,729,420 | 22,084,055 | 7,729,420 |

|                                                                                                                 |                       |                       |                       |                       |
|-----------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Net loss                                                                                                        | \$ (1,697,600)        | \$ (3,197,800)        | \$ (2,373,900)        | \$ (8,608,100)        |
| Other comprehensive income (loss):                                                                              |                       |                       |                       |                       |
| Reclassification of net unrealized losses on derivative instruments to interest expense                         | -                     | -                     | -                     | 2,600                 |
| Tax expense related to items of other comprehensive loss                                                        | -                     | -                     | -                     | (600)                 |
| Other comprehensive income                                                                                      | -                     | -                     | -                     | 2,000                 |
| <b>Total comprehensive loss</b>                                                                                 | <b>(1,697,600)</b>    | <b>(3,197,800)</b>    | <b>(2,373,900)</b>    | <b>(8,606,100)</b>    |
| <b>Less: comprehensive loss attributable to non-controlling interests</b>                                       | <b>339,000</b>        | <b>-</b>              | <b>479,000</b>        | <b>-</b>              |
| <b>Total comprehensive loss attributable to Mega Matrix Corp. (formerly "AeroCentury Corp.")'s shareholders</b> | <b>\$ (1,358,600)</b> | <b>\$ (3,197,800)</b> | <b>\$ (1,894,900)</b> | <b>\$ (8,606,100)</b> |

\* Retrospectively restated to give effect to five for one forward stock split effective December 30, 2021.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.



**MEGA MATRIX CORP.**  
(formerly “AeroCentury Corp.”)  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022 AND 2021**  
(US Dollar, except for share data, unless otherwise stated)

**Mega Matrix Corp. (formerly “AeroCentury Corp.”)**

|                                                                | <b>Stockholder's Equity</b>  |                  |                             |                                |                           |                                                         |                                           |                         |
|----------------------------------------------------------------|------------------------------|------------------|-----------------------------|--------------------------------|---------------------------|---------------------------------------------------------|-------------------------------------------|-------------------------|
|                                                                | <b>Common Stock</b>          |                  |                             |                                |                           | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Loss</b> | <b>Non-<br/>Controlling<br/>Interests</b> | <b>Total<br/>Equity</b> |
|                                                                | <b>Number of<br/>Stocks*</b> | <b>Amount*</b>   | <b>Paid-in<br/>Capital*</b> | <b>Accumulated<br/>Deficit</b> | <b>Treasury<br/>Stock</b> |                                                         |                                           |                         |
| <b>Balance, December 31, 2020</b>                              |                              |                  |                             |                                |                           |                                                         |                                           |                         |
| <b>(Predecessor)</b>                                           | 7,729,420                    | \$ 7,700         | \$ 16,776,900               | \$ (31,361,600)                | \$ (3,037,300)            | \$ (2,000)                                              | \$ -                                      | \$ (17,616,300)         |
| Net loss                                                       | -                            | -                | -                           | (5,410,300)                    | -                         | -                                                       | -                                         | (5,410,300)             |
| Accumulated other comprehensive income                         | -                            | -                | -                           | -                              | -                         | 2,000                                                   | -                                         | 2,000                   |
| <b>Balance, March 31, 2021</b>                                 |                              |                  |                             |                                |                           |                                                         |                                           |                         |
| <b>(Predecessor)</b>                                           | 7,729,420                    | \$ 7,700         | \$ 16,776,900               | \$ (36,771,900)                | \$ (3,037,300)            | \$ -                                                    | \$ -                                      | \$ (23,024,600)         |
| Net loss                                                       | -                            | -                | -                           | (3,197,800)                    | -                         | -                                                       | -                                         | (3,197,800)             |
| <b>Balance, June 30, 2021</b>                                  |                              |                  |                             |                                |                           |                                                         |                                           |                         |
| <b>(Predecessor)</b>                                           | <u>7,729,420</u>             | <u>\$ 7,700</u>  | <u>\$ 16,776,900</u>        | <u>\$ (39,969,700)</u>         | <u>\$ (3,037,300)</u>     | <u>\$ -</u>                                             | <u>\$ -</u>                               | <u>\$ (26,222,400)</u>  |
| <b>Balance, December 31, 2021</b>                              |                              |                  |                             |                                |                           |                                                         |                                           |                         |
| <b>(Successor)</b>                                             | 22,084,055                   | \$ 22,100        | \$ 16,982,700               | \$ (4,954,400)                 | \$ -                      | \$ -                                                    | \$ (237,100)                              | \$ 11,813,300           |
| Share based compensation                                       | -                            | -                | -                           | -                              | -                         | -                                                       | 65,000                                    | 65,000                  |
| Net loss                                                       | -                            | -                | -                           | (536,300)                      | -                         | -                                                       | (140,000)                                 | (676,300)               |
| <b>Balance, March 31, 2022</b>                                 |                              |                  |                             |                                |                           |                                                         |                                           |                         |
| <b>(Successor)</b>                                             | 22,084,055                   | \$ 22,100        | \$ 16,982,700               | \$ (5,490,700)                 | \$ -                      | \$ -                                                    | \$ (312,100)                              | \$ 11,202,000           |
| Cancellation of share-based compensation due to one management | -                            | -                | -                           | -                              | -                         | -                                                       | (12,000)                                  | (12,000)                |
| Net loss                                                       | -                            | -                | -                           | (1,358,600)                    | -                         | -                                                       | (339,000)                                 | (1,697,600)             |
| <b>Balance, June 30, 2022</b>                                  |                              |                  |                             |                                |                           |                                                         |                                           |                         |
| <b>(Successor)</b>                                             | <u>22,084,055</u>            | <u>\$ 22,100</u> | <u>\$ 16,982,700</u>        | <u>\$ (6,849,300)</u>          | <u>\$ -</u>               | <u>\$ -</u>                                             | <u>\$ (663,100)</u>                       | <u>\$ 9,492,400</u>     |

\* Retrospectively restated to give effect to five for one forward stock split effective December 30, 2021.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.



**MEGA MATRIX CORP.**  
(formerly “AeroCentury Corp.”)  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(US Dollar, unless otherwise stated)**

|                                                                                       | <b>Successor</b>    | <b>Predecessor</b>  |
|---------------------------------------------------------------------------------------|---------------------|---------------------|
|                                                                                       | <b>Six Months</b>   | <b>Six Months</b>   |
|                                                                                       | <b>Ended</b>        | <b>Ended</b>        |
|                                                                                       | <b>June 30,</b>     | <b>June 30,</b>     |
|                                                                                       | <b>2022</b>         | <b>2021</b>         |
| <b>Operating activities:</b>                                                          |                     |                     |
| <b>Net cash (used in) / provided by operating activities</b>                          | <b>(3,413,300)</b>  | <b>561,300</b>      |
| <b>Investing activities:</b>                                                          |                     |                     |
| Proceeds from sale of aircraft and Part-out Assets held for sale, net of re-sale fees | -                   | 11,796,100          |
| <b>Net cash provided by investing activities</b>                                      | <b>-</b>            | <b>11,796,100</b>   |
| <b>Financing activities:</b>                                                          |                     |                     |
| Repayment of notes payable – MUFG Credit Facility and Drake Indebtedness              | -                   | (14,210,700)        |
| Repayment of notes payable – Nord Loans                                               | -                   | (703,100)           |
| Issuance of notes payable – PPP Loan                                                  | -                   | 170,000             |
| Debt issuance costs                                                                   | -                   | (5,200)             |
| <b>Net cash used in financing activities</b>                                          | <b>-</b>            | <b>(14,749,000)</b> |
| Net decrease in cash and cash equivalents                                             | (3,413,300)         | (2,391,600)         |
| Cash and cash equivalents, beginning of period                                        | 7,380,700           | 5,100,900           |
| <b>Cash and cash equivalents, end of period</b>                                       | <b>\$ 3,967,400</b> | <b>\$ 2,709,300</b> |

During the six months ended June 30, 2022 and 2021, the Company paid interest totaling \$120,000 and \$186,500, respectively. During the six months ended June 30, 2022 and 2021, the Company paid income taxes totaling \$nil and \$4,000, respectively.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**MEGA MATRIX CORP.**  
(formerly “AeroCentury Corp.”)  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(US Dollar, except for share data and per share data, unless otherwise stated)

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

Mega Matrix Corp. (the “Company”, formerly “AeroCentury Corp.” and “ACY”) is a Delaware corporation incorporated in 1997. Through the Company’s emergence from bankruptcy on September 30, 2021, and new investors and management, the Company became a holding company located in Palo Alto, California, with two subsidiaries: Mega Metaverse Corp., a California corporation (“Mega”) and JetFleet Holdings Corp., a California corporation (“JHC”). On January 1, 2022, JetFleet Management Corp. (“JMC”), a wholly-owned subsidiary of JHC, was merged with and into JHC, with JHC being the surviving entity. As part of the merger, JHC changed its name to JetFleet Management Corp. On March 25, 2022, the Company changed its name from “AeroCentury Corp.” to “Mega Matrix Corp.” (“Name Change”) to better reflect its expansion into Metaverse and GameFi business. In connection with the Name Change, the Company changed its ticker symbol from “ACY” to “MTMT” on the NYSE American, effective on March 28, 2022. All references to the “Company,” or “AeroCentury” refers to AeroCentury Corp. together with its consolidated subsidiaries prior to March 25, 2022 and renamed “Mega Matrix Corp.” commencing on March 25, 2022.

In August 2016, the Company formed two wholly-owned subsidiaries, ACY 19002 Limited (“ACY 19002”) and ACY 19003 Limited (“ACY 19003”) for the purpose of acquiring aircraft using a combination of cash and third-party financing (“UK LLC SPE Financing” or “special-purpose financing”) separate from the Company’s credit facility (the “MUFG Credit Facility”). The UK LLC SPE Financing was repaid in full in February 2019 as part of a refinancing involving new non-recourse term loans totaling approximately \$44.3 million (“Nord Loans”) made to ACY 19002, ACY 19003, and two other newly formed special-purpose subsidiaries of the Company, ACY SN 15129 LLC (“ACY 15129”) and ACY E-175 LLC (“ACY E-175”), which were formed for the purpose of refinancing four of the Company’s aircraft using the Nord Loans. The Company sold its membership interest in ACY E-175 in March 2021.

On October 20, 2021, the Company set up Mega Metaverse Corp. (“Mega”), a wholly owned subsidiary incorporated in California. In December 2021, the Company launched its GameFi business in the metaverse ecosystem through Mega and released its first NFT game “Mano” in late March of 2022. Mano is a competitive idle role-playing game (RPG) deploying the concept of GameFi in the innovative NFTs (non-fungible token) on blockchain technology, with a “Play-to-earn” model that the players can earn while they play in the Company’s metaverse universe “alSpace”. Our alSpace metaverse platform has been developed. It is our intent that the alSpace universe will (i) support our NFT games to launch; and (ii) create a marketplace where players and users place their in-game NFT to sell and trade. Failure to develop a robust alSpace metaverse universe will adversely affect our business objectives.

On December 23, 2021, the Company filed with the Secretary of State of the State of Delaware a Certificate of Amendment to the Certificate of Incorporation to (i) implement a 5-for-1 forward stock split of its issued and outstanding shares of common stock (the “Stock Split”), and (ii) to increase the number of authorized shares of common stock of the Company from 13,000,000 to 40,000,000, effective December 30, 2021.

*Chapter 11 Bankruptcy Emergence*

On March 29, 2021 (the “Petition Date”), the Company and certain of its subsidiaries in the U.S. (collectively, the “Debtors” and the “Debtors-in-Possession”) filed voluntary petitions for relief (collectively, the “Petitions”) under Chapter 11 of Title 11 (“Chapter 11”) of the U.S. Bankruptcy Code (the “Bankruptcy Code”) in the U.S. Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”). The Chapter 11 cases (the “Chapter 11 Case”) are being jointly administered under the caption *In re: AeroCentury Corp., et al., Case No. 21-10636*.

The Plan was confirmed by the Bankruptcy Court on August 31, 2021, and the Company emerged from the bankruptcy proceedings on September 30, 2021 (“the Effective Date”).

### *Fresh Start Accounting*

Upon emergence from bankruptcy, the Company adopted fresh start accounting in accordance with Accounting Standards Codification (ASC) Topic 852 – Reorganizations (ASC 852) and became a new entity for financial reporting purposes. As a result, the consolidated financial statements after the Effective Date are not comparable with the consolidated financial statements on or before that date as indicated by the “black line” division in the financial statements and footnote tables, which emphasizes the lack of comparability between amounts presented. References to “Successor” relate to our financial position and results of operations after the Effective Date. References to “Predecessor” refer to the financial position and results of operations of the Company and its subsidiaries on or before the Effective Date.

During the Predecessor period, ASC 852 was applied in preparing the consolidated financial statements. ASC 852 requires the financial statements, for periods subsequent to the commencement of the Chapter 11 Cases, to distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. ASC 852 requires certain additional reporting for financial statements prepared between the bankruptcy filing date and the date of emergence from bankruptcy, including: (i) Reclassification of pre-petition liabilities that are unsecured, under-secured or where it cannot be determined that the liabilities are fully secured, to a separate line item on the consolidated balance sheet called, “Liabilities subject to compromise”; and (ii) Segregation of “Reorganization items, net” as a separate line on the consolidated statements of comprehensive loss, included within income from continuing operations.

Upon application of fresh start accounting, we allocated the reorganization value to our individual assets and liabilities, except for deferred income taxes, based on their estimated fair values in conformity with ASC Topic 805, Business Combinations. The amount of deferred taxes was determined in accordance with ASC Topic 740, Income Taxes.

## **2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES**

### *Basis of presentation*

The accompanying unaudited condensed consolidated financial statements are presented on a consolidated basis in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) for interim financial information, the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by US GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022 or for any other period. All intercompany balances and transactions have been eliminated in consolidation.

### *Non-controlling interests*

Non-controlling interests represent the equity interests of JMC that are not attributable, either directly or indirectly, to the Company. As of June 30, 2022 and December 31, 2021, non-controlling equity holders held 49% and 24.17% equity interest in JHC, respectively.

### *Liquidity*

As of June 30, 2022, the Company had total net assets of approximately \$9.5 million and believes that this has alleviated the substantial doubt about the Company’s ability to continue as a going concern. As a result of the effectiveness of the Plan, the Company believes it has the ability to meet its obligations for at least one year from the date of issuance date of the Company’s unaudited condensed consolidated financial statements for the three and six months ended June 30, 2022. Accordingly, the accompanying unaudited condensed consolidated financial statements as of and for the three and six months ended June 30, 2022, have been prepared assuming that the Company will continue as a going concern and contemplate the realization of assets and the satisfaction of liabilities in the normal course business.

### *Impact of COVID-19*

The Company's business could be adversely affected by the effects of epidemic. COVID-19, a novel strain of coronavirus, has spread around the world. The ongoing COVID-19 Pandemic has had an overwhelming effect on all forms of transportation globally, but most acutely for the airline industry. The combined effect of fear of infection during air travel and international and domestic travel restrictions has caused a dramatic decrease in passenger loads in all areas of the world, not just in those countries with active clusters of COVID-19, but in airline ticket net bookings (i.e. bookings made less bookings canceled) of flights as well. This has led to significant cash flow issues for airlines, including some of the Company's customers. The Predecessor provided lease payment reductions to customers, and also sold aircraft to the customers who failed to make scheduled lease payments.

In the short term, the COVID-19 pandemic has created uncertainties and risks. Based on the current situation, the Company does not expect a significant impact on the operations and financial results in the long run. The extent to which COVID-19 impacts the results of operations will depend on the future development of the circumstances, which is highly uncertain and cannot be predicted with confidence at this time.

### ***Use of Estimates***

The Company's unaudited condensed consolidated financial statements have been prepared in accordance with US GAAP. The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable for making judgments that are not readily apparent from other sources.

The most significant estimates with regards to these consolidated financial statements are accounting for realization of goodwill, the amount and timing of future cash flows associated with each asset that are used to evaluate whether assets are impaired, accounting for income taxes, and the amounts recorded as allowances for doubtful accounts.

### ***Digital assets***

Digital assets (including Binance Coin (BNB), USD Coin (USDC) and Binance USD (BUSD) are included in current assets in the accompanying unaudited condensed consolidated balance sheets. Digital assets purchased are recorded at cost and digital assets awarded to the Company through its GameFi business are accounted for in connection with the Company's revenue recognition policy disclosed below.

Digital assets held are accounted for as intangible assets with indefinite useful lives. An intangible asset with an indefinite useful life is not amortized but assessed for impairment annually, or more frequently, when events or changes in circumstances occur indicating that it is more likely than not that the indefinite-lived asset is impaired. Impairment exists when the carrying amount exceeds its fair value, which is measured using the quoted price of the digital assets at the time its fair value is being measured. In testing for impairment, the Company has the option to first perform a qualitative assessment to determine whether it is more likely than not that an impairment exists. If it is determined that it is not more likely than not that an impairment exists, a quantitative impairment test is not necessary. If the Company concludes otherwise, it is required to perform a quantitative impairment test. To the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset. Subsequent reversal of impairment losses is not permitted.

Purchases of digital assets by the Company, if any, will be included within investing activities in the accompanying unaudited condensed consolidated statements of cash flows, while digital assets awarded to the Company through its GameFi are included within operating activities on the accompanying unaudited condensed consolidated statements of cash flows. The sales of digital assets are included within investing activities in the accompanying unaudited condensed consolidated statements of cash flows and any realized gains or losses from such sales are included in "realized gain (loss) on exchange of digital assets" in the unaudited condensed consolidated statements of operations and comprehensive loss. The Company accounts for its gains or losses in accordance with the first-in first-out method of accounting. As of June 30, 2022, the Company did not sell its digital assets for cash.

### ***Intangible assets***

Purchased intangible assets primarily consist of software, which are recognized and measured at fair value upon acquisition. Separately identifiable intangible assets that have determinable lives continue to be amortized over their estimated useful lives using the straight-line method based on their estimated useful lives. The estimated useful life of software is 3 years.



### ***Impairment of long-lived assets***

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Impairment of \$8,300 and \$nil of digital assets was recognized for the three and six months ended June 30, 2022 and 2021, respectively.

### ***Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts***

#### ***Revenue from GameFi business***

In late March 2022, the Company released its first NFT game “Mano” in the Mega’s metaverse universe platform “alSpace”. Mano is a competitive idle role-playing game (RPG) deploying the concept of GameFi in the innovative application of NFTs (non-fungible token) based on blockchain technology, with a “Play-to-earn” business model that the players can earn while they play in the alSpace.

The Company earns transaction fees from players based on a fixed number of Binance Coin (BNB) of each transaction when they want to upgrade or reset their NFT in Mano. When a player executes a game transaction through Binance Smart Chain (“BSC”), transaction fee is recognized upon the completion of this game transaction. Only a single performance obligation is identified for each game transaction, and the performance obligation is satisfied on the trade date because that is when the underlying game service is identified, the pricing of transaction fee is agreed upon and the promised services are delivered to customers. All of the Company’s revenues from contracts with customers are recognized at a point in time. The game service could not be cancelled once it’s executed and is not refundable, so returns and allowances are not applicable. The Company recognizes revenues on a gross basis as the Company is determined to be the primary obligor in fulfilling the trade order initiated by the player.

The revenue is in the form of BNB, which is a cryptocurrency that is primarily used in payment of paying transactions and trading fees through BSC. BNB is convertible to cash or other digital assets. The BNB is collected just in time in the accounts of MetaMask Wallet of the Company. As of June 30, 2022, the Company had no accounts receivable due from players.

#### ***Revenue from leasing of aircraft assets***

Revenue from leasing of aircraft assets pursuant to operating leases is recognized on a straight-line basis over the terms of the applicable lease agreements. Deferred payments are recorded as accrued rent when the cash rent received is lower than the straight-line revenue recognized. Such receivables decrease over the term of the applicable leases. Interest income is recognized on finance leases based on the interest rate implicit in the lease and the outstanding balance of the lease receivable.

Maintenance reserves retained by the Company at lease-end are recognized as maintenance reserves revenue.

In instances where collectability is not reasonably assured, the Company recognizes revenue as cash payments are received. The Company estimates and charges to income a provision for bad debts based on its experience with each specific customer, the amount and length of payment arrearages, and its analysis of the lessee’s overall financial condition. If the financial condition of any of the Company’s customers deteriorates, it could result in actual losses exceeding any estimated allowances.

The Company had an allowance for doubtful accounts of \$nil and \$300,000 at June 30, 2022 and December 31, 2021, respectively.

### ***Comprehensive Loss***

The Company accounts for former interest rate cash flow hedges by reclassifying accumulated other comprehensive income into earnings in the periods in which the expected transactions occur or when it is probable that the hedged transactions will no longer occur, and are included in interest expense.

### ***Taxes***

As part of the process of preparing the Company's consolidated financial statements, management estimates income taxes in each of the jurisdictions in which the Company operates. This process involves estimating the Company's current tax exposure under the most recent tax laws and assessing temporary differences resulting from differing treatment of items for tax and US GAAP purposes. These differences result in deferred tax assets and liabilities, which are included in the balance sheet. In assessing the valuation of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income or availability to carryback the losses to taxable income during periods in which those temporary differences become deductible. The Company considered several factors when analyzing the need for a valuation allowance including the Company's current three-year cumulative loss through June 30, 2022, the operation forecast, the Company's recent filing for protection under Chapter 11 of the bankruptcy code, the operation uncertainty of the Company's new business. Based on this analysis, the Company has concluded that a valuation allowance is necessary for its U.S. and foreign deferred tax assets not supported by either future taxable income or availability of future reversals of existing taxable temporary differences and has recorded a full valuation allowance on its deferred tax assets.

### ***Interest Rate Hedging***

During the first quarter of 2019, the Company entered into certain derivative instruments to mitigate its exposure to variable interest rates under the Nord Loan debt and a portion of the MUFG Indebtedness. Hedge accounting is applied to such a transaction only if specific criteria have been met, the transaction is deemed to be "highly effective" and the transaction has been designated as a hedge at its inception. Under hedge accounting treatment, generally, the effects of derivative transactions are recorded in earnings for the period in which the hedge transaction affects earnings. A change in value of a hedging instrument is reported as a component of other comprehensive income/(loss) and is reclassified into earnings in the period in which the transaction being hedged affects earnings.

If at any time after designation of a cash flow hedge, such as those entered into by the Company, it is no longer probable that the forecasted cash flows will occur, hedge accounting is no longer permitted and a hedge is "de-designated." After de-designation, if it is still considered reasonably possible that the forecasted cash flows will occur, the amount previously recognized in other comprehensive income/(loss) will continue to be reversed as the forecasted transactions affect earnings. However, if after de-designation it is probable that the forecasted transactions will not occur, amounts deferred in accumulated other comprehensive income/(loss) will be recognized in earnings immediately.

In October 2019, the Company became aware that, as a result of certain defaults under its MUFG Credit Facility, certain of the forecasted transactions related to its MUFG Credit Facility interest rate swaps were no longer probable of occurring, hence, those swaps were de-designated from hedge accounting at that time. The two swaps related to the MUFG Credit Facility were terminated in March 2020 and the Company incurred a \$3.1 million obligation in connection with such termination, payment of which was due no later than the June 30, 2021 maturity of the Drake Loan. As a result of the forecasted transaction being not probable to occur, accumulated other comprehensive loss of \$1,167,700 related to the MUFG Swaps was recognized as interest expense in the first quarter of 2020.

In March 2020, the Company determined that the future hedged interest payments related to its five remaining Nord Loan interest rate hedges (the "Nord Swaps") were no longer probable of occurring, and consequently de-designated all five swaps from hedge accounting. Additionally, in December 2020, the Company determined that the interest cash flows that were associated with its three remaining swaps were probable of not occurring after February 2021.

### ***Reclassifications***

Certain prior period amounts have been reclassified to conform with the current period presentation. These reclassifications had no impact on previously reported net income or cash flows.

### ***Recent Accounting Pronouncements***

#### **ASU 2016-13**

The Financial Accounting Standard Board (“FASB”) issued Accounting Standard Update (“ASU”) 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, in June 2016 (“ASU 2016-13”). ASU 2016-13 provides that financial assets measured at amortized cost are to be presented as a net amount, reflecting a reduction for a valuation allowance to present the amount expected to be collected (the “current expected credit loss” model of reporting). As such, expected credit losses will be reflected in the carrying value of assets and losses will be recognized before they become probable, as is required under the Company’s present accounting practice. In the case of assets held as available for sale, the amount of the valuation allowance will be limited to an amount that reflects the marketable value of the debt instrument. This amendment to US GAAP is effective in the first quarter of 2023 for calendar-year SEC filers that are smaller reporting companies as of the one-time determination date. Early adoption is permitted beginning in 2019. The Company plans to adopt the new guidance on January 1, 2023 and has not determined the impact of this adoption on its consolidated financial statements.

### **3. EMERGENCE FROM THE CHAPTER 11 CASES**

On March 29, 2021, the Company and certain of its subsidiaries in the U.S. filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court. The Chapter 11 Cases are being jointly administered under the caption *In re: AeroCentury Corp., et al., Case No. 21-10636*.

On July 14, 2021, the Debtors filed the *Combined Disclosure Statement and Joint Chapter 11 Plan of Reorganization of AeroCentury Corp, and Its Affiliated Debtors* Docket No. 0282, with the Bankruptcy Court (the “Combined Plan Statement”). On August 16, 2021, the Company filed the *Notice of Filing of Plan Supplement to the Combined Disclosure Statement and Joint Chapter 11 Plan of AeroCentury Corp., and its Affiliated Debtors*, Docket No. 0266, with the Bankruptcy Court (as may be later amended or supplemented, the “Plan Supplement”). On August 30, 2021, the Company filed the *Second Plan Supplement to the Combined Disclosure Statement and Joint Chapter 11 Plan of AeroCentury Corp., and its Affiliated Debtors*, Docket No. 0288, with the Bankruptcy Court. On August 31, 2021, the Bankruptcy Court entered an order, Docket No. 282 (the “Confirmation Order”), confirming the Plan as set forth in the Combined Plan Statement and Plan Supplement.

The principal terms of the Plan Sponsor Agreement were below:

- **Plan Sponsor Equity Investment.** The Plan Sponsor Agreement provided for the issuance by the Company of 2,870,927 of Common Stock (“New ACY Shares”) at a purchase price equal to \$3.85 per share, for an aggregate purchase price of US\$11 million. The New ACY Shares issuance resulted in post-issuance pro forma ownership percentages of the Company common stock of (a) 65% held by the Plan Sponsor, and (b) 35% held by existing shareholders of the Company on the Effective Date (the “Legacy ACY Shareholders”).
- **New Capital Structure for JetFleet Holding Corp. (“JHC”).** On the Effective Date, the following transactions relating to JHC equity ownership was executed:
  - a) Cancellation of the Company’s Equity in JHC. All outstanding stock of JetFleet Holding Corp. (“JHC”) currently held 100% by the Company, was canceled.
  - b) JHC Common Stock Issuance to Plan Sponsor and JHC Management. Plan Sponsor acquired 35,000 shares of common stock of JHC, and certain employees of JHC (“JHC Management”) who would be appointed to continue the legacy aircraft leasing business of the Company through JHC shall acquire 65,000 shares of common

stock of JHC. All shares of common stock of JHC would be purchased at a price of \$1 per share.

- c) JHC Series A Preferred Stock Issuance to the Company. The Company used \$2 million of its proceeds from the Plan Sponsor's purchase of New ACY Shares to purchase new JHC Series A Preferred Stock from JHC. The JHC Series A Preferred Stock shall carry a dividend rate of 7.5% per annum, shall be non-convertible and non-transferable, should be redeemable by JHC at any time, but shall only be redeemable by the Company after 7 years. The JHC Series A Preferred Stockholders shall in the aggregate constitute 74.83% of the voting equity of JHC, voting as a single class together with the outstanding JHC Common Stock.
- d) Distribution of Trust Interest in JHC Series B to Legacy ACY Shareholders. A trust ("Legacy Trust") was established for the benefit of the Legacy ACY Shareholders, and JHC issued new JHC Series B Preferred Stock to the Legacy Trust. The JHC Series B Preferred Stock issued to the Legacy Trust will have an aggregate liquidation preference of \$1, non-convertible, non-transferable, non-voting, will not pay a dividend, and will contain a mandatory, redeemable provision. The JHC Series B Preferred Stock was redeemable for an aggregate amount equal to (i) \$1,000,000, if the JHC Series B Preferred Stock is redeemed after the first fiscal year for which JHC reports positive EBITDA for the preceding 12-month period, or (ii) \$0.001 per share, if the JHC Series B Preferred Stock is redeemed prior the first fiscal year for which JHC reports positive EBITDA for the preceding 12-month period.

On September 30, 2021 ("Effective Date") and pursuant to the Plan Sponsor Agreement, the Company entered into and consummated (the "Closing") the transactions contemplated by a Securities Purchase Agreement (the "Securities Purchase Agreement") with the Plan Sponsor, and Yucheng Hu, in the capacity as the representative for the Plan Sponsor thereunder, pursuant to which the Company issued and sold, and the Plan Sponsor purchased, 14,354,635 shares of common stock (given effect to five for one forward stock split), par value \$0.001 per share, of the Company (the "ACY Common Stock") at \$0.77 (given effect to five for one forward stock split) for each share of Common Stock, for an aggregate purchase price of approximately \$11,053,100 (the "Purchase Price"). The Securities Purchase Agreement contained customary representations, warranties and covenants by the parties to such agreement.

On the Effective Date, the Debtors satisfied all conditions precedent required for consummation of the Plan as set forth in the Plan, the Plan became effective in accordance with its terms and the Debtors emerged from the Chapter 11 Cases without any need for further action or order of the Bankruptcy Court.

#### **4. GOODWILL FROM FRESH START ACCOUNTING**

In connection with our emergence from bankruptcy and in accordance with ASC Topic 852, the Company qualified for and adopted fresh start accounting on the Effective Date. We were required to adopt fresh start accounting because (i) the holders of existing voting shares of the Predecessor received less than 50% of the voting shares of the Successor, and (ii) the reorganization value of our assets immediately prior to confirmation of the Plan was less than the post-petition liabilities and allowed claims.

The adoption of fresh start accounting resulted in a new reporting entity for financial reporting purposes with no beginning retained earnings or deficit. The issuance of new shares of common stock of the Successor caused a related change of control of the Company under ASC 852.

Upon the application of fresh start accounting, the Company allocated the reorganization value to its individual assets based on their estimated fair values. Each asset and liability existing as of the Effective Date, other than deferred taxes, have been stated at the fair value, and determined at appropriate risk-adjusted interest rates. Deferred taxes were determined in conformity with applicable accounting standards. The excess of enterprise value of the Successor over the fair value of net assets was recorded as goodwill.

Reorganization value represents the fair value of the Successor's assets before considering liabilities. Our reorganization value is derived from an estimate of enterprise value. Enterprise value represents the estimated fair value of an entity's long-term debt and shareholders' equity. In support of the Plan, the enterprise value of the Successor was estimated to be approximately \$18.9 million. The valuation analysis was prepared using financial information and financial projections and applying standard valuation techniques, including a risked net asset value analysis.

The Effective Date estimated fair values of certain of the Company's assets and liabilities differed materially from their recorded values as reflected on the historical balance sheets. As a result of the application of fresh start accounting and the effects of the implementation of the Plan, the Company's consolidated financial statements on or after September 30,

2021 are not comparable to the Company's consolidated financial statements as of or prior to that date.

*Reorganization Value*

The enterprise value of the Successor Company was estimated to be between \$18.0 million and \$20.0 million. Based on the estimates and assumptions discussed below, the Company estimated the enterprise value to be \$18.9 million as of the Effective Date.

Management, with the assistance of its valuation advisors, estimated the enterprise value (“EV”) of the Successor Company, using various valuation methodologies, including a Discounted Cash Flow analysis (DCF), the Guideline Public Company Method (GPCM), and the Guideline Transaction Method (GTM). Under the DCF analysis, the enterprise value was estimated by discounting the projections’ unlevered free cash flow by the Weighted Average Cost of Capital (WACC), the Company’s estimated rate of return. A terminal value was estimated by applying a Gordon Growth Model to the normalized level of cash flows in the terminal period. The Gordon Growth Model was based on the WACC and the perpetual growth rate, and the terminal value was added back to the discounted cash flows.

Under the GPCM, the Company’s enterprise value was estimated by performing an analysis of publicly traded companies that operate in a similar industry. A range of Enterprise Value / EBITDA (EV/EBITDA) multiples were selected based on the financial and operating attributes of the Company relative to the comparable publicly traded companies. The selected range of multiples were applied to the Company’s forecasted EBITDA to estimate the enterprise value of the Company.

The GTM approach is similar to the GPCM, in that it relies on EV/EBITDA multiples but rather than of publicly traded companies, the multiples are based on precedent transactions. A range of multiples was derived by analyzing the operating and financial attributes of the acquired companies and the implied EV/EBITDA multiples. This range of multiples were then applied to the forecasted EBITDA of the Company to arrive an enterprise value.

The following table reconciles the enterprise value to the fair value of net assets as of the Effective Date:

|                                 | <b>September 30,<br/>2021</b> |
|---------------------------------|-------------------------------|
| Enterprise value                | \$ 18,883,100                 |
| Cash and cash equivalents       | \$ 10,625,600                 |
| Accounts receivable             | 450,000                       |
| Finance leases receivable, net  | 1,234,500                     |
| Taxes receivable                | 1,884,400                     |
| <b>Fair value of net assets</b> | <b>\$ 14,194,500</b>          |
| <b>Goodwill</b>                 | <b>\$ 4,688,600</b>           |

## 5. DIGITAL ASSETS

Digital asset holdings were comprised of the following:

|      | <b>June 30,<br/>2022</b> | <b>December 31,<br/>2021</b> |
|------|--------------------------|------------------------------|
| USDC | \$ 297,400               | \$ -                         |
| BNB  | 6,900                    | -                            |
| BUSD | 10,200                   | -                            |
|      | <b>\$ 314,500</b>        | <b>\$ -</b>                  |

### *Additional information about digital assets*

For the six months ended June 30, 2022, the Company received BNB primarily through GameFi business. The Company generated USDC and BUSD from the exchange of BNB. The following table presents additional information about digital assets for the six months ended June 30, 2022:

|                                     | <b>June 30,<br/>2022</b> |
|-------------------------------------|--------------------------|
| Opening balance                     | \$ -                     |
| Receipt of BNB from GameFi business | 326,800                  |
| Exchange of BNB into USDC           | (297,400)                |
| Exchange of BNB into BUSD           | (10,200)                 |
| Payment of services and charges     | (4,000)                  |
| Impairment of BNB                   | (8,300)                  |
|                                     | <b>\$ 6,900</b>          |

## 6. FINANCE LEASE RECEIVABLE

The Company's leases are normally "triple net leases" under which the lessee is obligated to bear all costs, including tax, maintenance and insurance, on the leased assets during the term of the lease. In most cases, the lessee is obligated to provide a security deposit or letter of credit to secure its performance obligations under the lease, and in some cases, is required to pay maintenance reserves based on utilization of the aircraft, which reserves are available for qualified maintenance costs during the lease term and may or may not be refundable at the end of the lease. Typically, the leases also contain minimum return conditions, as well as an economic adjustment payable by the lessee (and in some instances by the lessor) for amounts by which the various aircraft or engine components are worse or better than a targeted condition set forth in the lease. Some leases contain renewal or purchase options, although the Company's sales-type leases contain a bargain purchase option at lease end which the Company expects the lessees to exercise or require that the lessee purchase the aircraft at lease-end for a specified price.

Because all of the Company's leases transfer use and possession of the asset to the lessee and contain no other substantial undertakings by the Company, the Company has concluded that all of its lease contracts qualify for lease accounting. Certain lessee payments of what would otherwise be lessor costs (such as insurance and property taxes) are excluded from both revenue and expense.



The Company evaluates the expected return on its leased assets by considering both the rents receivable over the lease term, any expected additional consideration at lease end, and the residual value of the asset at the end of the lease. In some cases, the Company depreciates the asset to the expected residual value because it expects to sell the asset at lease end; in other cases, it may expect to re-lease the asset to the same or another lessee and the depreciation term and related residual value will differ from the initial lease term and initial residual value. Residual value is estimated by considering future estimates provided by independent appraisers, although it may be adjusted by the Company based on expected return conditions or location, specific lessee considerations, or other market information.

For the three months ended June 30, 2022 and 2021, the Company recorded impairment losses totaling \$nil and \$2,264,000, respectively, for nil and five of its aircraft held for sale that were written down to their sales prices, less cost of sale. For the six months ended June 30, 2022 and 2021, the Company recorded impairment losses totaling \$nil and \$4,204,400, respectively, for nil and five of its aircraft held for sale that were written down to their sales prices, less cost of sale.

*(a) Assets Held for Lease*

At June 30, 2022, the Company had no regional jet aircraft held for lease. At December 31, 2021, the Company had one regional jet aircraft held for lease.

The Company did not purchase or sell any aircraft held for lease during the three and six months ended June 30, 2022 and 2021. As a result of its Chapter 11 filing in March 2021 and the Company's consequent lack of authority to sell certain assets without the approval of the Bankruptcy Court, as of June 30, 2021, the Company reclassified all of its off-lease aircraft, comprised of four regional jet aircraft and two turboprop aircraft, from held for sale to held for lease.

*(b) Sales-Type and Finance Leases*

In January 2020, the Company amended the leases for three of its assets that were subject to sales-type leases with two customers. The amendments provided for (i) the exercise of a purchase option of one aircraft to the customer in January 2020, which resulted in a gain of \$12,700, (ii) application of collected maintenance reserves and a security deposit held by the Company to past due amounts for the other two aircraft, (iii) payments totaling \$585,000 in January 2020 for two of the leases and (iv) the reduction of future payments due under the two finance leases. Because of the uncertainty of collection of amounts receivable under the finance leases, the Company did not recognize interest income on the finance lease receivables (i.e., they are accounted for on a non-accrual basis) and their asset value is based on the collateral value of the aircraft that secure the finance leases, net of projected sales costs.

The Company had two sales-type leases, which were substantially modified in January 2020 to reduce the amount of monthly payments and purchase option amounts due under the leases. Although the modifications would ordinarily have given rise to income or loss resulting from the changed term of the agreements, the lessee's poor compliance with the lease terms has led the Company to value the sales-type leases at the fair value of the collateral and, as such, the modifications did not give rise to any effect on income other than that related to the collateral value of the financed aircraft. The Company recorded a bad debt allowance of \$821,000 related to one of the two sales-type finance leases as a result of its May 2021 agreement to sell the aircraft to the customer ("Sale Order"), and recorded a bad debt allowance of \$326,000 related to the second sales-type finance lease as a result of its July 2021 agreement to sell the aircraft to the customer.

As a result of the Sale Order approved by the Bankruptcy Court in May 2021, the Company reclassified all of its aircraft under sales-type and finance leases to held for sale.

At June 30, 2022 and December 31, 2021, the net investment included in sales-type leases and direct financing leases receivable were as follows:

|                                         | <b>June 30,<br/>2022</b> | <b>December 31,<br/>2021</b> |
|-----------------------------------------|--------------------------|------------------------------|
| Gross minimum lease payments receivable | \$ -                     | \$ 300,000                   |
| Allowance for doubtful accounts         | -                        | (300,000)                    |
| Finance leases receivable               | <u>\$ -</u>              | <u>\$ -</u>                  |

As of June 30, 2022 and December 31, 2021, there were no minimum future payments receivable under finance leases.



## 7. INTANGIBLE ASSETS

Intangible assets were comprised of the following:

|                                | <b>June 30,<br/>2022</b> | <b>December 31,<br/>2021</b> |
|--------------------------------|--------------------------|------------------------------|
| Software                       | \$ 1,000,000             | \$ -                         |
| Less: Accumulated amortization | (111,100)                | -                            |
|                                | <b>\$ 888,900</b>        | <b>\$ -</b>                  |

For the three months ended June 30, 2022 and 2021, the amortization expenses were \$27,800 and \$nil, respectively. For the six months ended June 30, 2022 and 2021, the amortization expenses were \$111,100 and \$nil, respectively. The amortization was charged to the cost of revenues.

## 8. OPERATING SEGMENTS

ASC 280, "Segment Reporting," establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organizational structure as well as information about geographical areas, business segments and major customers in financial statements for details on the Company's business segments. The Company uses the "management approach" in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company's chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company's reportable segments. Management, including the chief operating decision maker, reviews operation results by the revenue of different services.

For the three and six months ended June 30, 2022, the Company had two business segments which were comprised of 1) the leasing of regional aircraft to foreign and domestic regional airlines, and 2) the newly launched GameFi business. For the three and six months ended June 30, 2021, the Company had one business segment which was the leasing of regional aircraft to foreign and domestic regional airlines.

The following tables present summary information of operations by segment for the three and months ended June 30, 2022 and 2021, respectively:

|                                  | <b>For the Three Months Ended<br/>June 30, 2022 (Successor)</b> |                             |                |
|----------------------------------|-----------------------------------------------------------------|-----------------------------|----------------|
|                                  | <b>GameFi<br/>Business</b>                                      | <b>Leasing<br/>Business</b> | <b>Total</b>   |
| Revenue                          | \$ 3,200                                                        | \$ -                        | \$ 3,200       |
| Gross loss                       | \$ (530,100)                                                    | \$ -                        | \$ (530,100)   |
| Expenses                         | \$ (547,400)                                                    | \$ (617,500)                | \$ (1,164,900) |
| Loss before income tax provision | \$ (1,077,500)                                                  | \$ (617,500)                | \$ (1,695,000) |
| Net loss                         | \$ (1,077,900)                                                  | \$ (619,700)                | \$ (1,697,600) |

  

|  | <b>For the Three Months Ended<br/>June 30, 2021 (Predecessor)</b> |                |
|--|-------------------------------------------------------------------|----------------|
|  | <b>GameFi</b>                                                     | <b>Leasing</b> |

|                                  | <b>Business</b> |   | <b>Business</b> | <b>Total</b>   |
|----------------------------------|-----------------|---|-----------------|----------------|
| Revenue                          | \$              | - | \$ 1,480,700    | \$ 1,480,700   |
| Gross profit                     | \$              | - | \$ 1,480,700    | \$ 1,480,700   |
| Expenses                         | \$              | - | \$ (4,674,800)  | \$ (4,674,800) |
| Loss before income tax provision | \$              | - | \$ (3,194,100)  | \$ (3,194,100) |
| Net loss                         | \$              | - | \$ (3,197,800)  | \$ (3,197,800) |

|                                  | <b>For the Six Months Ended<br/>June 30, 2022 (Successor)</b> |                             |                |
|----------------------------------|---------------------------------------------------------------|-----------------------------|----------------|
|                                  | <b>GameFi<br/>Business</b>                                    | <b>Leasing<br/>Business</b> | <b>Total</b>   |
| Revenue                          | \$ 326,800                                                    | \$ 120,000                  | \$ 446,800     |
| Gross (loss)/profit              | \$ (234,300)                                                  | \$ 120,000                  | \$ (114,300)   |
| Expenses                         | \$ (1,026,000)                                                | \$ (1,229,500)              | \$ (2,255,500) |
| Loss before income tax provision | \$ (1,260,300)                                                | \$ (1,109,500)              | \$ (2,369,800) |
| Net loss                         | \$ (1,261,100)                                                | \$ (1,112,800)              | \$ (2,373,900) |

|                                  | <b>For the Six Months Ended<br/>June 30, 2021 (Predecessor)</b> |                             |                 |
|----------------------------------|-----------------------------------------------------------------|-----------------------------|-----------------|
|                                  | <b>GameFi<br/>Business</b>                                      | <b>Leasing<br/>Business</b> | <b>Total</b>    |
| Revenue                          | \$ -                                                            | \$ 4,014,900                | \$ 4,014,900    |
| Gross profit                     | \$ -                                                            | \$ 4,014,900                | \$ 4,014,900    |
| Expenses                         | \$ -                                                            | \$ (12,570,100)             | \$ (12,570,100) |
| Loss before income tax provision | \$ -                                                            | \$ (8,555,200)              | \$ (8,555,200)  |
| Net loss                         | \$ -                                                            | \$ (8,608,100)              | \$ (8,608,100)  |

The following tables present total assets by segment for as of June 30, 2022 and December 31, 2021:

|                 | <b>June 30,<br/>2022</b> | <b>December 31,<br/>2021</b> |
|-----------------|--------------------------|------------------------------|
| GameFi Business | \$ 4,458,500             | \$ 6,788,900                 |
| Lease Business  | 2,311,800                | 3,472,100                    |
| Unallocated     | 4,688,600                | 4,688,600                    |
|                 | <b>\$ 11,458,900</b>     | <b>\$ 14,949,600</b>         |

## 9. DERIVATIVE INSTRUMENTS

In the first quarter of 2019, the Company entered into eight fixed pay/receive variable interest rate swaps. The Company entered into the interest rate swaps in order to reduce its exposure to the risk of increased interest rates.

The Company estimates the fair value of derivative instruments using a discounted cash flow technique and uses creditworthiness inputs that corroborate observable market data evaluating the Company's and counterparties' risk of non-performance. Valuation of the derivative instruments requires certain assumptions for underlying variables and the use of different assumptions would result in a different valuation. Management believes it has applied assumptions consistently during the period.

The Company designated seven of its interest rate swaps as cash flow hedges upon entering into the swaps. Changes in the fair value of the hedged swaps were included in other comprehensive income/(loss), which amounts are reclassified into earnings in the period in which the transaction being hedged affected earnings (i.e., with future settlements of the

interest rate swaps). One of the interest rate swaps was not eligible under its terms for hedge treatment and was terminated in 2019 when the associated asset was sold and the related debt was paid off. Changes in fair value of non-hedge derivatives are reflected in earnings in the periods in which they occur.

*(a) MUFG Swaps*

The two interest rate swaps entered into by AeroCentury (the “MUFG Swaps”) were intended to protect against the exposure to interest rate increases on \$50 million of the Company’s MUFG Credit Facility debt prior to its sale to Drake during the fourth quarter of 2020. The MUFG Swaps had notional amounts totaling \$50 million and were to extend through the maturity of the MUFG Credit Facility in February 2023. Under the ISDA agreement for these interest rate swaps, defaults under the MUFG Credit Facility give the swap counterparty the right to terminate the interest rate swaps with any breakage costs being the liability of the Company.

In October 2019, the Company determined that it was no longer probable that forecasted cash flows for its two interest rate swaps with a nominal value of \$50 million would occur as scheduled as a result of the Company’s defaults under the MUFG Credit Facility. Therefore, those swaps were no longer subject to hedge accounting and changes in fair market value thereafter were recognized in earnings as they occurred. As a result of the forecasted transaction being not probable to occur, accumulated other comprehensive loss of \$1,167,700 related to the MUFG Swaps was recognized as interest expense in the first quarter of 2020. The two swaps related to the MUFG Credit Facility were terminated in March 2020 and the Company incurred a \$3.1 million obligation, recorded as interest expense and derivative termination liability, in connection with such termination, payment of which was due no later than the March 31, 2021 maturity of the Drake Indebtedness.

The derivative termination liability was included in the liabilities subject to compromise. As part of the Plan of Reorganization, the Bankruptcy Court approved the settlement of claims reported within Liabilities subject to compromise in the Company’s consolidated balance sheet at their respective allowed claim amounts. Accordingly, the Company did not have derivative termination liability as of June 30, 2022 and December 31, 2021.

*(b) Nord Swaps*

With respect to the interest rate swaps entered into by the LLC Borrowers (“the Nord Swaps”), the swaps were deemed necessary so that the anticipated cash flows of such entities, which arise entirely from the lease rents for the aircraft owned by such entities, would be sufficient to make the required Nord Loan principal and interest payments, thereby preventing default so long as the lessees met their lease rent payment obligations.

The Nord Swaps were entered into by the LLC Borrowers and provided for reduced notional amounts that mirrored the amortization under the Nord Loans entered into by the LLC Borrowers, effectively converting each of the related Nord Loans from a variable to a fixed interest rate, ranging from 5.38% to 6.30%. Each of Nord Swaps extended for the duration of the corresponding Nord Loan. Two of the swaps had maturities in the fourth quarter of 2020 and were terminated when the associated assets were sold and the related debt was paid off. The other three LLC Swaps had maturities in 2025, but were sold in March 2021 as part of the Company’s sale of its membership interest in ACY E-175.

In March 2020, the Company determined that the future hedged interest payments related to its Nord Swaps were no longer probable of occurring, as a result of lease payment defaults for the aircraft owned by ACY 19002 and ACY 19003 and conversations with the lessee for the three aircraft owned by ACY E-175 regarding likely rent concessions, and consequently de-designated all five Nord Swaps as hedges because the lease payments were used to service the Nord Loans associated with the swaps. As a result of de-designation, future changes in market value were recognized in ordinary income and AOCI was reclassified to ordinary income as the forecasted transactions occurred. In December 2020, the Company determined that the payments after February 2021 for the three remaining swaps were probable not to occur as a result of the Company’s agreement to sell its interest in ACY E-175 during the first quarter of 2021. Accumulated other comprehensive income of \$2,600 related to the Nord Swaps was recognized as an expense in the six months ended June 30, 2021, respectively.

| <b>Successor</b>    | <b>Predecessor</b>  | <b>Successor</b>  | <b>Predecessor</b> |
|---------------------|---------------------|-------------------|--------------------|
| <b>Three Months</b> | <b>Three Months</b> | <b>Six Months</b> | <b>Six Months</b>  |
| <b>Ended</b>        | <b>Ended</b>        | <b>Ended</b>      | <b>Ended</b>       |
| <b>June 30,</b>     | <b>June 30,</b>     | <b>June 30,</b>   | <b>June 30,</b>    |
| <b>2022</b>         | <b>2021</b>         | <b>2022</b>       | <b>2021</b>        |



|                                                                      |             |             |             |                    |
|----------------------------------------------------------------------|-------------|-------------|-------------|--------------------|
| Change in value of undesignated interest rate swaps                  | \$ -        | \$ -        | \$ -        | \$ (48,700)        |
| Reclassification from other comprehensive income to interest expense | -           | -           | -           | 2,600              |
| <b>Included in interest expense</b>                                  | <b>\$ -</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ (46,100)</b> |

|                                                                      | <b>Successor</b>    | <b>Predecessor</b>  | <b>Successor</b>  | <b>Predecessor</b> |
|----------------------------------------------------------------------|---------------------|---------------------|-------------------|--------------------|
|                                                                      | <b>Three Months</b> | <b>Three Months</b> | <b>Six Months</b> | <b>Six Months</b>  |
|                                                                      | <b>Ended</b>        | <b>Ended</b>        | <b>Ended</b>      | <b>Ended</b>       |
|                                                                      | <b>June 30,</b>     | <b>June 30,</b>     | <b>June 30,</b>   | <b>June 30,</b>    |
|                                                                      | <b>2022</b>         | <b>2021</b>         | <b>2022</b>       | <b>2021</b>        |
| Reclassification from other comprehensive income to interest expense | \$ -                | \$ -                | \$ -              | \$ 2,600           |
| Change in accumulated other comprehensive income                     | \$ -                | \$ -                | \$ -              | \$ 2,600           |

At June 30, 2022 and December 31, 2021, the Company had no interest rate swaps.

## 10. LEASE LIABILITIES AND RIGHT OF USE ASSETS

The Company was a lessee under a lease of the office space it occupies in Burlingame, California, which expired in June 2020. The lease also provided for two, successive one-year lease extension options for amounts that were substantially below the market rent for the property. The lease provided for monthly rental payments according to a fixed schedule of increasing rent payments. As a result of the below-market extension options, the Company determined that it was reasonably certain that it would extend the lease and, therefore, included such extended term in its calculation of the right of use asset ("ROU Asset") and lease liability recognized in connection with the lease.

In addition to a fixed monthly payment schedule, the office lease also included an obligation for the Company to make future variable payments for certain common areas and building operating and lessor costs, which were recognized as expense in the periods in which they are incurred. As a direct pass-through of applicable expense, such costs were not allocated as a component of the lease.

Effective January 1, 2020, the Company reduced both the size of the office space leased and the amount of rent payable in the future. As such, the Company recognized a reduction in both the capitalized amount related to the surrendered office space and a proportionate amount of the liability associated with its future lease obligations. In January 2020, the Company recorded a loss of \$160,000 related to the reduction in its ROU Asset, net of the reduction in its operating lease liability.

In March 2020, the Company elected not to exercise the extension options for its office lease. The lease liability associated with the office lease was calculated at June 30, 2020 by discounting the fixed, minimum lease payments over the remaining lease term, including the below-market extension periods, at a discount rate of 7.25%, which represents the Company's estimate of the incremental borrowing rate for a collateralized loan for the type of underlying asset that was the subject of the office lease at the time the lease liability was evaluated. As a result of non-exercise of its extension option, the Company reduced the lease liability to reflect only the three remaining rent payments in the second quarter of 2020.

In July 2020, the lease for the Company's office lease was extended for one month to July 31, 2020 at a rate of \$10,000. The Company signed a lease for a smaller office suite in the same building effective August 1, 2020. The lease provided for a term of 30 months expiring on January 31, 2023, at a monthly base rate of approximately \$7,400, with no rent due during the first six months. The Company recognized an ROU asset and lease liability of \$169,800, both of which were non-cash items and are not reflected in the consolidated statement of cash flows. No cash was paid at the inception of the lease, and a discount rate of 3% was used, based on the interest rates available on secured commercial real estate loans available at the time. Upon emergence from bankruptcy on September 30, 2021, the Company terminated the office lease agreement, and the Company had no right of use assets or lease liabilities as of June 30, 2022 and December 31, 2021.

The Company recognized rental expenses as follows:

|                                      | <b>Successor</b>    | <b>Predecessor</b>  | <b>Successor</b>  | <b>Predecessor</b> |
|--------------------------------------|---------------------|---------------------|-------------------|--------------------|
|                                      | <b>Three Months</b> | <b>Three Months</b> | <b>Six Months</b> | <b>Six Months</b>  |
|                                      | <b>Ended</b>        | <b>Ended</b>        | <b>Ended</b>      | <b>Ended</b>       |
|                                      | <b>June 30,</b>     | <b>June 30,</b>     | <b>June 30,</b>   | <b>June 30,</b>    |
|                                      | <b>2022</b>         | <b>2021</b>         | <b>2022</b>       | <b>2021</b>        |
| Fixed rental expense during the year | \$ 41,500           | \$ 17,800           | \$ 84,000         | \$ 35,500          |
| Variable lease expense               | -                   | 4,500               | -                 | 11,000             |
| <b>Lease expenses</b>                | <b>\$ 41,500</b>    | <b>\$ 22,300</b>    | <b>\$ 84,000</b>  | <b>\$ 46,500</b>   |



## 11. FAIR VALUE MEASUREMENT

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs, to the extent possible. The fair value hierarchy under US GAAP is based on three levels of inputs.

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

### Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis

The Company estimates the fair value of derivative instruments using a discounted cash flow technique and has used creditworthiness inputs that corroborate observable market data evaluating the Company's and counterparties' risk of non-performance.

The Successor of the Company had no interest rate swaps on June 30, 2022 and December 31, 2021. For the three and six months ended June 30, 2021, the Predecessor of the Company reversed \$48,700 as realized through the income statement as a result of sale of interest rate swaps. For the six months ended June 30, 2021, the Predecessor of the Company recorded no realized income or loss as a change in interest expense.

There were no transfers into or out of Level 3 during the three and six months ended June 30, 2022.

### Assets Measured and Recorded at Fair Value on a Non-recurring Basis

The Company determines fair value of long-lived assets held and used, such as aircraft and aircraft engines held for lease and other assets held for sale, by reference to independent appraisals, quoted market prices (e.g., offers to purchase) and other factors. The independent appraisals utilized the market approach which uses recent sales of comparable assets, making appropriate adjustments to reflect differences between them and the subject property being analyzed. Certain assumptions are used in the management's estimate of the fair value of aircraft including the adjustments made to comparable assets, identifying market data of similar assets, and estimating cost to sell. These are considered Level 3 within the fair value hierarchy. An impairment charge is recorded when the Company believes that the carrying value of an asset will not be recovered through future net cash flows and that the asset's carrying value exceeds its fair value.

For the three months ended June 30, 2021, the Company recorded impairment losses totaling \$2,264,000 on five assets held for sale, based on appraised values or expected sales proceeds, which had an aggregate fair value of \$29,333,100. During the six months ended June 30, 2021, the Predecessor of the Company recorded an impairment loss of \$4,204,400 on its five assets held for sale, based on expected sales proceeds, which had an aggregate fair value of \$29,333,100.

The Successor of the Company did not record impairment against assets held for sale for the three and six months ended June 30, 2022.

There were no transfers into or out of Level 3 during the three and six months ended June 30, 2022.



### Fair Value of Other Financial Instruments

The Company's financial instruments, other than cash and cash equivalents, consist principally of finance leases receivable, amounts borrowed under the MUFG Credit Facility and Drake Loan, notes payable under special-purpose financing, its derivative termination liability and its derivative instruments. The fair value of accounts receivable, accounts payable and the Company's maintenance reserves and accrued maintenance costs approximates the carrying value of these financial instruments because of their short-term maturity. The fair value of finance lease receivables approximates the carrying value. The fair value of the Company's derivative instruments is discussed in Note 9 and in this note above in "Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis."

Borrowings under the Company's Drake Loan bore floating rates of interest that reset periodically to a market benchmark rate plus a credit margin. The Company believes the effective interest rate under the Drake Loan approximates current market rates, and therefore that the outstanding principal and accrued interest of \$80,060,900 at June 30, 2021 approximate their fair values on such date. The fair value of the Company's outstanding balance of its Drake Loan is categorized as a Level 3 input under the US GAAP fair value hierarchy.

As part of the Plan of Reorganization, the Bankruptcy Court approved the settlement of claims reported within Liabilities subject to compromise in the Company's Consolidated balance sheet at their respective allowed claim amounts. Accordingly, the Company did not have finance leases receivable, amounts borrowed under the MUFG Credit Facility and Drake Loan, notes payable under special-purpose financing, its derivative termination liability and its derivative instruments as of June 30, 2022 and December 31, 2021.

There were no transfers in or out of assets or liabilities measured at fair value under Level 3 during the three and six months ended June 30, 2022 or 2021.

## **12. COMMITMENTS AND CONTINGENCIES**

In the ordinary course of the Company's business, the Company may be subject to lawsuits, arbitrations and administrative proceedings from time to time. The Company believes that the outcome of any existing or known threatened proceedings, even if determined adversely, should not have a material adverse effect on the Company's business, financial condition, liquidity or results of operations.

## **13. INCOME TAXES**

The Company recorded income tax expense of \$2,600 and \$4,100 in the three and six months ended June 30, 2022, or negative 0.15% and 0.17%, respectively of pre-tax loss, compared to \$3,600 and \$52,800 income tax expense, or negative 0.12% and 0.62% of pre-tax loss in the three and six months ended June 30, 2021. The difference in the effective federal income tax rate from the normal statutory rate in the three and six months ended June 30, 2022 was primarily related to the discontinued operation of the Company's foreign aircraft leasing business.

In assessing the valuation of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income or availability to carryback the losses to taxable income during periods in which those temporary differences become deductible. The Company considered several factors when analyzing the need for a valuation allowance including the Company's current three-year cumulative loss through June 30, 2022, the operation forecast, the Company's recent filing for protection under Chapter 11 of the bankruptcy code, the operation uncertainty of the Company's new business. Based on this analysis, the Company has concluded that a valuation allowance is necessary for its U.S. and foreign deferred tax assets not supported by either future taxable income or availability of future reversals of existing taxable temporary differences and has recorded a full valuation allowance on its deferred tax assets.

## **14. SUBSEQUENT EVENTS**

None



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

*The following discussion and analysis should be read together with the Company's annual report on Form 10-K for the fiscal year ended December 31, 2021 and the audited consolidated financial statements and notes included therein (collectively, the "2021 Annual Report"), as well as the Company's unaudited condensed consolidated financial statements and the related notes included in this report. Pursuant to Instruction 2 to paragraph (b) of Item 303 of Regulation S-K promulgated by the SEC, in preparing this discussion and analysis, the Company has presumed that readers have access to and have read the disclosure under the same heading contained in the 2021 Annual Report. This discussion and analysis contains forward-looking statements. Please see the cautionary note regarding these statements at the beginning of this report.*

### Overview

We are engaged in the GameFi business in the metaverse ecosystem which was launched in late March 2022. In addition, to a lesser extent, we are engaged in the provision of aircraft advisory and management services since September 30, 2021.

On October 20, 2021, we set up Mega Metaverse Corp. ("Mega"), a wholly owned subsidiary incorporated in California. In December 2021, we launched our GameFi business in the metaverse ecosystem through Mega, and released our first NFT game "Mano" on March 25, 2022. Mano is a competitive idle role-playing game (RPG) deploying the concept of GameFi in the innovative application of NFTs (non-fungible token) based on blockchain technology, with a "Play-to-earn" business model that the players can earn while they play in Mega's metaverse universe "alSpace".

Mano is played using our NFT alBots, Genesis alBots and non-Genesis alBots. Both types of alBots can be traded in our alSpace marketplace. Genesis alBots are better designed and have more functions and capabilities, which we believe will create greater demand and collection value. Non-Genesis alBots with ordinary design do not have as much value because of its limited energy level. As of June 30, 2022, we randomly distributed sixty-six (66) Genesis alBots to early reservation holders. In addition, we also distributed some non-Genesis alBots to our team members and developers for beta testing and are restricted from trading. Players with Genesis alBots can get higher rewards in terms of Mano coin, a token issued by the Company in the alSpace.

Currently we earn fees from our Mano game as follows:

- Resetting Genesis alBots. Through game play, the energy level of the Genesis alBots will be depleted. To reset the energy level, a player can pay a fee to reset Genesis alBots back to its original maximum energy level. Players cannot reset non-Genesis alBots.
- Transaction Fee. We charge a transaction fee for each purchase of virtual equipment and tools from our online store. These virtual equipment and tools can be applied to all categories of alBots.
- Synthesis Fee. Our players can clone or convert their alBots using Mano coins. By cloning an alBot, a player can randomly extract certain genes/attributes from the alBot and create a new NFT which we call Genome. Each alBot can only make seven (7) clones, however, Genesis alBots can be reset to make seven (7) additional clones. In addition, players can convert its alBots into a Genome. Once the alBot is converted into a Genome, the original alBot is consumed. Players can synthesize two Genomes to create a new alBot based on the genes/attributes contained in the Genomes. In addition, the Genomes can be traded or sold in the alSpace marketplace. We charge a transaction fee for this synthesis process.



**alBots****Genome**

For the six months ended June 30, 2022, we generated revenues of \$0.3 million in transaction fees from our Mano game. For the three months ended June 30, 2022, we generated minimal revenues.

Previously, we have historically provided leasing and financing services to regional airlines worldwide and have been principally engaged in leasing mid-life regional aircraft to customers worldwide under operating leases and finance leases. In addition to leasing activities, we have also sold aircraft from our operating lease portfolio to third parties, including other leasing companies, financial services companies, and airlines. Our operating performance was driven by the composition of its aircraft portfolio, the terms of its leases, and the interest rate of its debt, as well as asset sales.

On March 29, 2021, we and our subsidiaries filed a voluntary petition for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. The filing was made in the U.S. Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”) Case No. 21-10636 (the “Chapter 11 Case”). We also filed motions with the Bankruptcy Court seeking authorization to continue to operate our business as “debtor-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court.

On September 30, 2021, we emerged from bankruptcy with a restructured balance sheet, a new management team, and a new purpose to focus on new lines of business other than the aircraft leasing business.

On September 30, 2021 (the “Effective Date”) and pursuant to the Plan Sponsor Agreement, we entered into and consummated the transactions contemplated by a Securities Purchase Agreement with the Plan Sponsor, and Yucheng Hu, in the capacity as the representative for the Plan Sponsor thereunder, pursuant to which we issued and sold, and the Plan Sponsor purchased, 14,354,635 shares of common stock (given effect to five for one forward stock split), par value \$0.001 per share, of the Company (the “ACY Common Stock”) at \$0.77 (given effect to five for one forward stock split) for each share of Common Stock, for an aggregate purchase price of approximately \$11,053,100 (the “Purchase Price”). The Securities Purchase Agreement contained customary representations, warranties and covenants by the parties to such agreement.

The principal terms of the Plan Sponsor Agreement are below:

- Plan Sponsor Equity Investment.** The Plan Sponsor Agreement provides for the issuance by the Company of 14,354,635 shares of common stock (given effect to five for one forward stock split) (“New ACY Shares”) at a purchase price equal to \$0.77 (given effect to five for one forward stock split), for an aggregate purchase price of approximately \$11 million. The New ACY Shares issuance would result in post-issuance pro forma ownership percentages of the Company common stock of (a) 65% held by the Plan Sponsor, and (b) 35% held by existing shareholders of the Company on the Effective Date (the “Legacy ACY Shareholders”).

- **Refundability of the Deposit.** In the event the purchase of the New ACY Shares does not close as a result of Plan Sponsor's failure to comply with the terms of Plan Sponsor Agreement, the Deposit will be forfeited to the Company. In the event the purchase of the New ACY Shares does not close as a result of Debtors' failure to comply with the terms of the Plan Sponsor Agreement or the failure of the conditions precedent set forth in the Plan Sponsor Agreement, the Deposit will be refunded to Plan Sponsor. If Bankruptcy Court or any regulatory authority having the authority to block the consummation of the purchase of the New ACY Shares do not approve of the purchase of the New ACY Shares, the Deposit will be refunded to Plan Sponsor.
- **Breakup Fee.** If the Bankruptcy Court accepts and approves an exit financing transaction for the Company with a party other than the Plan Sponsor (an "Alternative Transaction") then the Company shall pay Plan Sponsor, upon the closing of such Alternative Transaction, in addition to the return of the Deposit, a breakup fee equal to \$1,000,000.
- **New Capital Structure for JetFleet Holding Corp. ("JHC").** On the Effective Date, the following transactions relating to JHC equity ownership shall be executed:
  - a) Cancellation of the Company's Equity in JHC. All outstanding stock of JetFleet Holding Corp. ("JHC") currently held 100% by the Company, was canceled.
  - b) JHC Common Stock Issuance to Plan Sponsor and JHC Management. Plan Sponsor shall acquire 35,000 shares of common stock of JHC, and certain employees of JHC ("JHC Management") who will be appointed to continue the legacy aircraft leasing business of the Company through JHC shall have the right to acquire 65,000 shares of common stock of JHC. All shares of common stock of JHC will be purchased at a price of \$1 per share. In January 2022, JHC Management completed the purchase of 65,000 shares of common stock of JHC.
  - c) JHC Series A Preferred Stock Issuance to the Company. The Company will use \$2 million of its proceeds from the Plan Sponsor's purchase of New ACY Shares to purchase 104,082 shares of JHC Series A Preferred Stock from JHC. The JHC Series A Preferred Stock shall carry a dividend rate of 7.5% per annum, shall be non-convertible and non-transferable, shall be redeemable by JHC at any time, but shall only be redeemable by the Company after 7 years. As of June 30, 2022 and December 31, 2021, the JHC Series A Preferred Stockholders shall in the aggregate constitute 51% and 74.83% of the voting equity of JHC, respectively, voting as a single class together with the outstanding JHC Common Stock.
  - d) Distribution of Trust Interest in JHC Series B to Legacy ACY Shareholders. A trust ("Legacy Trust") will be established for the benefit of the Legacy ACY Shareholders, and JHC will issue new JHC Series B Preferred Stock to the Legacy Trust. The JHC Series B Preferred Stock issued to the Legacy Trust will have an aggregate liquidation preference of \$1, non-convertible, non-transferable, non-voting, will not pay a dividend, and will contain a mandatory, redeemable provision. The JHC Series B Preferred Stock will be redeemable for an aggregate amount equal to (i) \$1,000,000, if the JHC Series B Preferred Stock is redeemed after the first fiscal year for which JHC reports positive EBITDA for the preceding 12-month period, or (ii) \$0.001 per share, if the JHC Series B Preferred Stock is redeemed prior the first fiscal year for which JHC reports positive EBITDA for the preceding 12-month period.

On December 23, 2021, we filed with the Secretary of State of the State of Delaware a Certificate of Amendment to our Certificate of Incorporation to (i) implement a 5-for-1 forward stock split of our issued and outstanding shares of common stock (the "Stock Split"), and (ii) to increase the number of authorized shares of our common stock from 13,000,000 to 40,000,000, effective December 30, 2021.

On March 18, 2022, we filed a Certificate of Amendment to our Second Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware, amending Article I to change our name from AeroCentury Corp. to Mega Matrix Corp., effective March 25, 2022 (the "Name Change"). In connection with the Name Change, our ticker symbol was changed from "ACY" to "MTMT" on the NYSE American, effective March 28, 2022.



On March 25, 2022, we released our first NFT game “Mano” through Mega, our wholly owned subsidiary. Our alSpace metaverse platform is still currently being developed and undergoing upgrades. It is our intent that the alSpace universe will (i) support our NFT games to launch; (ii) provide an engine and studio where creators can create their own game and use alSpace; and (iii) create a marketplace where players and users place their in-game NFT and other NFT to sell and trade.

### ***Results of Operations***

*For the three months ended June 30, 2022 and 2021*

#### ***Revenues and Other Income***

Revenues and other income decreased by 100% to \$3,200 in the three months ended June 30, 2022 from \$1.5 million in the three months ended June 30, 2021. The decrease was primarily a result of a decrease of \$1.5 million, or 100%, in operating lease revenues to \$nil in the three months ended June 30, 2022 as a result of reduced rent income from the sale of aircraft during the fourth quarter of 2020 and the whole year of 2021, partially offset by an increase of \$3,000 generated from our newly launched GameFi business.

#### ***Expenses***

For the three months ended June 30, 2022 and 2021, the Company had total operating expenses of \$1.2 million and \$4.7 million, respectively. The changes in expenses were primarily caused by changes in impairment in value of aircraft, professional fees and other general and administrative expenses, depreciation expenses, bad debt expenses and reorganization costs.

During the three months ended June 30, 2022, the Company did not record impairment charges as the Company did not have assets for sale for the relevant period. During the three months ended June 30, 2021, the Company recorded impairment charges totaling \$2.3 million on two assets held for sale, based on expected sales proceeds.

Professional fees, general and administrative and other expenses increased by \$0.3 million, or 275% to \$0.4 million in the three months ended June 30, 2022 from \$0.1 million in the three months ended June 30, 2021, primarily due to minimal expenses incurred during the three months ended June 30, 2021 as a result of its March 29, 2021 Chapter 11 filing.

Depreciation expenses decreased by \$0.5 million, or 100% to \$nil in the three months ended June 30, 2022 from \$0.5 million in the three months ended June 30, 2021 primarily as a result of the reclassification of aircraft from held for lease to held for sale during the fourth quarter of 2020 and second quarter of 2021.

We did not record a provision of bad debt expenses for the three months ended June 30, 2022, as compared with a provision of bad debt expenses of \$0.3 million. For the three months ended June 30, 2021, we recorded bad debt expenses as a result of payment delinquencies by the Company’s two customers of aircraft subject to sales-type finance leases.

### *Income tax provision*

The Company recorded income tax expense of \$2,600 in the three months ended June 30, 2022, or negative 0.15% (of pre-tax loss, compared to \$3,700 income tax expense, or negative 0.12% of pre-tax loss in the three months ended June 30, 2021. The difference in the effective federal income tax rate from the normal statutory rate in the second quarter of 2021 was primarily related to the recording of a valuation on U.S. deferred tax assets.

In assessing the valuation of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income or availability to carryback the losses to taxable income during periods in which those temporary differences become deductible. The Company considered several factors when analyzing the need for a valuation allowance including the Company's current three-year cumulative loss through June 30, 2022, the operation forecast, the Company's recent filing for protection under Chapter 11 of the bankruptcy code, the operation uncertainty of the Company's new business. Based on this analysis, the Company has concluded that a valuation allowance is necessary for its U.S. and foreign deferred tax assets not supported by either future taxable income or availability of future reversals of existing taxable temporary differences and has recorded a full valuation allowance on its deferred tax assets.

### *For the six months ended June 30, 2022 and 2021*

#### *Revenues and Other Income*

Revenues and other income decreased by 89% to \$0.45 million in the six months ended June 30, 2022 from \$4.0 million in the six months ended June 30, 2021. The decrease was primarily a result of a decrease of \$4.1 million, or 97.1%, in operating lease revenues to \$0.1 million in the six months ended June 30, 2022 from \$4.2 million in the six months ended June 30, 2021 as a result of reduced rent income from the sale of aircraft during the fourth quarter of 2020 and the whole year of 2021, partially offset by an increase of \$0.3 million generated from our newly launched GameFi business.

#### *Expenses*

For the six months ended June 30, 2022 and 2021, the Company had total operating expenses of \$2.3 million and \$12.6 million, respectively. The changes in expenses were primarily caused by changes in impairment in value of aircraft, interest expense, professional fees and other general and administrative expenses, depreciation expenses, bad debt expenses and reorganization costs.

During the six months ended June 30, 2022, the Company did not record impairment charges as the Company did not have assets for sale for the relevant period. During the six months ended June 30, 2021, the Company recorded impairment charges totaling \$4.2 million on two assets held for sale, based on expected sales proceeds.

The Company's interest expense decreased by \$1.8 million, or 94% to \$0.1 million in the six months ended June 30, 2022 from \$1.9 million in the six months ended June 30, 2021, as a result of the Company's Chapter 11 filing in late March 2021, after which the Company did not accrue interest on the Drake Indebtedness. In addition, the Company sold five aircraft in August 2021 and the proceeds, totaling \$41.6 million, were used to pay down the Drake Indebtedness.

Professional fees, general and administrative and other expenses decreased by \$0.7 million, or 42% to \$1.0 million in the six months ended June 30, 2022 from \$1.7 million in the six months ended June 30, 2021, primarily due to increased amortization of legal fees related to the Company's Drake Indebtedness and legal fees related to the Company's Chapter 11 filing for the six months ended June 30, 2021.

Depreciation expenses decreased by \$1.2 million, or 100% to \$nil in the six months ended June 30, 2022 from \$1.2 million in the six months ended June 30, 2021 primarily as a result of the reclassification of aircraft from held for lease to held for sale during the fourth quarter of 2020 and second quarter of 2021.



We recorded a reversal of bad debt expenses of \$0.3 million for the six months ended June 30, 2022, as compared with a provision of bad debt expenses of \$1.1 million for the same period ended June 30, 2021. For the six months ended June 30, 2022, we reversed the bad debt expenses because the Company collected part of the financial lease receivable, and believed it highly probable to collect the remaining balance. For the six months ended June 30, 2021, we recorded bad debt expenses as a result of payment delinquencies by the Company's two customers of aircraft subject to sales-type finance leases.

During the six months ended June 30, 2021, we recorded \$1.0 million of reorganization costs as a result of its March 29, 2021 Chapter 11 filing.

#### *Income tax provision*

The Company recorded income tax expense of \$4,100 in the six months ended June 30, 2022, or negative 0.17% of pre-tax loss, compared to \$52,900 income tax expense, or negative 0.62% of pre-tax loss in the six months ended June 30, 2022. The difference in the effective federal income tax rate from the normal statutory rate in the first six months of 2021 was primarily related to the recording of a valuation allowance on U.S. deferred tax assets.

In assessing the valuation of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income or availability to carryback the losses to taxable income during periods in which those temporary differences become deductible. The Company considered several factors when analyzing the need for a valuation allowance including the Company's current three-year cumulative loss through June 30, 2022, the operation forecast, the Company's recent filing for protection under Chapter 11 of the bankruptcy code, the operation uncertainty of the Company's new business. Based on this analysis, the Company has concluded that a valuation allowance is necessary for its U.S. and foreign deferred tax assets not supported by either future taxable income or availability of future reversals of existing taxable temporary differences and has recorded a full valuation allowance on its deferred tax assets.

#### ***Liquidity and Capital Resources***

As of June 30, 2022, the Company had total net assets of approximately \$9.5 million and believes that this has alleviated the substantial doubt about the Company's ability to continue as a going concern. As a result of the effectiveness of the Plan, the Company believes it has the ability to meet its obligations for at least one year from the date of issuance date of the Company's unaudited condensed consolidated financial statements for the three and six months ended June 30, 2022. Accordingly, the accompanying unaudited condensed consolidated financial statements as of and for the three and six months ended June 30, 2022, have been prepared assuming that the Company will continue as a going concern and contemplate the realization of assets and the satisfaction of liabilities in the normal course business.

#### *Cash Flow*

Currently, the Company's primary uses of cash are for (i) salaries, employee benefits and general and administrative expenses, (ii) professional fees and legal expenses; and (iii) purchases of research and development services in relation with our newly launched GameFi business.

Actual results could deviate substantially from the assumptions management has made in forecasting the Company's future cash flow. There are a number of factors that may cause actual results to deviate from these forecasts. If these assumptions prove to be incorrect and the Company's cash requirements exceed its cash flow, the Company would need to pursue additional sources of financing to satisfy these requirements, which may not be available when needed, on acceptable terms or at all.

The following is a discussion of historical cash flows from operating, investing and financing activities:

*Operating activities*

The Company's net cash outflow from operations was \$3.4 million for the six months ended June 30, 2022, which was mainly attributable to payment of \$1.2 million for salaries and welfare, and payment of \$1.0 million for professional fees and legal expenses with our launch of GameFi business, and \$0.5 million for the maintenance cost for the platform.

The Company's net cash inflow from operations was \$0.6 million for the six months ended June 30, 2021, which was mainly attributable to payment of \$1.4 million for professional fees and legal expenses, \$0.5 million for salaries and employee benefits, \$0.2 million for interest, \$0.1 million for maintenance and \$0.1 million for aircraft insurance, partially offset by collection of finance lease income of \$2.1 million.

*Investing activities*

For the six months ended June 30, 2022, the Company did not provide or use any cash from investing activities.

For the six months ended June 30, 2021, the Company received net cash of \$11.8 million from asset sales.

*Financing activities*

For the six months ended June 30, 2022, the Company did not provide or use any cash from financing activities.

During the first six months ended June 30, 2021, the Company borrowed \$2.5 million in the form of paid-in-kind interest that was added to the outstanding principal balance under the MUFG Indebtedness and Drake Indebtedness, and repaid \$14.2 million of its total outstanding debt under the Drake Indebtedness and MUFG Indebtedness. Such repayments were funded by the sale of assets and rent and reserves received and used to pay down the Drake Indebtedness. During the first six months of 2021, the Company's special-purpose entities repaid \$0.7 million of the Nord Loans. During the first six months of 2021, the Company paid approximately \$5,000 for debt issuance and amendment fees.

***Critical Accounting Policies, Judgments and Estimates***

The Company's discussion and analysis of its financial condition and results of operations are based upon the unaudited condensed consolidated financial statements included in this report, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities at the date of the financial statements or during the applicable reporting period. In the event that actual results differ from these estimates or the Company adjusts these estimates in future periods, the Company's operating results and financial position could be materially affected. For a further discussion of Critical Accounting Policies, Judgments and Estimates, refer to Note 2 to the Company's unaudited condensed consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q.



### **ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

### **ITEM 4 - CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, as of the end of the period covered by this report, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Act of 1934. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be included in our SEC reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, relating to the Company, including our consolidated subsidiaries, and was made known to them by others within those entities, particularly during the period when this report was being prepared. Based upon that evaluation, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has concluded that, due to the material weakness described below, as of June 30, 2022, our disclosure controls and procedures were not effective.

We previously identified a material weakness in our internal control over financial reporting relating to our tax review control for complex transactions in 2020. We are in the process of enhancing our tax review control related to unusual transactions that we may encounter, but that control has not operated for a sufficient time to determine if the control was effective as of June 30, 2022.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive officer and principal financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurances with respect to financial statement preparation and presentation. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

#### **Changes in Internal Control Over Financial Reporting**

There have been no changes in the Company's internal controls over financial reporting during the six months ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1 - LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties and an adverse result in these or other matters may arise from time to time that may harm our business. To the best knowledge of management, there are no material legal proceedings pending against the Company.

### ITEM 1A - RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks set forth below in this Risk Factors section, in this report and in the section captioned “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, filed with the SEC on March 30, 2022, before making an investment decision. If any of the risks actually occur, our business, financial condition or results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. You should read the section captioned “Special Note Regarding Forward Looking Statements” above for a discussion of what types of statements are forward-looking statements, as well as the significance of such statements in the context of this report.

#### Risks Related to our Business

*A particular digital asset's status, such as an NFT, including our alBots, Genomes and weapons, as a “security” in any relevant jurisdiction is subject to a high degree of uncertainty and if a regulator disagrees with our characterization of the NFT or Mano coin, we may be subject to regulatory scrutiny, investigation, fines and penalties, which may adversely affect our business, operating results and financial condition. A determination that an NFT or our Mano coin is a “security” may adversely affect the value of those NFTs, Mano coins, and our business.*

The SEC and its staff have taken the position that certain digital assets such as a NFT may fall within the definition of a “security” under U.S. federal securities laws. The legal test for determining whether any given digital asset is a security is a highly complex, fact-driven analysis that may evolve over time, and the outcome is difficult to predict. Our determination that the NFTs that are developed by players and our Mano coins are not securities is a risk-based assessment and not a legal standard or one binding on regulators. The SEC generally does not provide advance guidance or confirmation on the status of any particular digital asset as a security. Furthermore, the SEC’s views in this area have evolved over time and it is difficult to predict the direction or timing of any continuing evolution. It is also possible that a change in the governing administration or the appointment of new SEC commissioners could substantially impact the views of the SEC and its staff.

The classification of a digital asset as a security under applicable law has wide-ranging implications for the regulatory obligations that flow from the offer, sale, trading, and clearing of such assets. For example, a digital asset that is a security may generally only be offered or sold pursuant to a registration statement filed with the SEC or in an offering that qualifies for an exemption from registration. Persons that effect transactions in digital assets that are securities may be subject to registration with the SEC as a “broker” or “dealer.” Platforms that bring together purchasers and sellers to trade digital assets that are securities are generally subject to registration as national securities exchanges, or must qualify for an exemption, such as by being operated by a registered broker-dealer as an alternative trading system (“ATS”), in compliance with rules for ATS’s. Persons facilitating clearing and settlement of securities may be subject to registration with the SEC as a clearing agency.

We analyze whether the NFTs that are related to our games and the Mano coin could be deemed to be a “security” under applicable laws. Our analysis does not constitute a legal standard, but rather represent our management’s assessment regarding the likelihood that a particular digital asset could be deemed a “security” under applicable laws. Regardless of our conclusions, we could be subject to legal or regulatory action in the event the SEC or a court were to determine that NFTs that are generated by our games or Mano coin may be deemed a “security” under applicable laws.

There can be no assurances that we will properly characterize any given digital asset as a security or non-security or that the SEC, or a court, if the question was presented to it, would agree with our assessment. We could be subject to judicial or administrative sanctions for failing to offer or sell digital assets in compliance with the registration requirements, or for acting as a broker or dealer without appropriate registration. Such an action could result in injunctions, cease and desist orders, as well as civil monetary penalties, fines, and disgorgement, criminal liability, and reputational harm. For instance, all transactions in such supported digital asset would have to be registered with the SEC, or conducted in accordance with an exemption from registration, which could severely limit its liquidity, usability and transactability. Further, it could draw negative publicity and a decline in the general acceptance of the digital asset. Also, it may make it difficult for such digital asset to be traded, cleared, and custodied as compared to other digital assets that are not considered to be securities.

*We will need to explore other opportunities in the metaverse to expand our business model.*

Our Mano game and alSpace platform is subject to continuing maintenance. At this time, we do not intend to develop other games or permit other developers to utilize the alSpace platform. Therefore, we will need to explore and develop other opportunities in the metaverse to expand our business model.

*Our business may suffer to some extent if we are unable to continue to develop successful games for the alSpace platform, successfully monetize alSpace platform games, or successfully forecast alSpace platform launches and/or monetization.*

In the future, our business may depend on developing and publishing alSpace platform games such as Mano for live online players for earning NFTs, and that such consumers will download and spend time playing. If we decide to seek development and market our alSpace platform games in the future, we expect to devote substantial resources; however we cannot guarantee that we will continue to develop games that appeal to players or that we can develop the alSpace platform that will appeal to other game developers. The success of our games depends, in part, on unpredictable and volatile factors beyond our control including consumer preferences, competing games, new metaverse platforms and the availability of other entertainment experiences. If our games are not launched on time or do not meet consumer expectations, or if they are not brought to market in a timely and effective manner, our ability to grow revenue and our financial performance will be negatively affected.

## **ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

## **ITEM 3 - DEFAULTS UPON SENIOR SECURITIES**

None.

## **ITEM 4 - MINE SAFETY DISCLOSURES**

Not applicable.

## **ITEM 5 - OTHER INFORMATION**

None.

## **ITEM 6 - EXHIBITS**

The following exhibits are filed as part of this Report.

| <b>Exhibit No.</b> | <b>Description</b>                                                                                               |
|--------------------|------------------------------------------------------------------------------------------------------------------|
| 31.1*              | <a href="#"><u>Certifications of the Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act</u></a> |
| 31.2*              | <a href="#"><u>Certifications of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act</u></a> |

|          |                                                                                                                  |
|----------|------------------------------------------------------------------------------------------------------------------|
| 32.1*    | <a href="#"><u>Certifications of the Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act</u></a> |
| 32.2*    | <a href="#"><u>Certifications of the Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act</u></a> |
| 101.INS* | Inline XBRL Instance Document.                                                                                   |
| 101.SCH* | Inline XBRL Taxonomy Extension Schema Document.                                                                  |
| 101.CAL* | Inline XBRL Taxonomy Extension Calculation Linkbase Document.                                                    |
| 101.DEF* | Inline XBRL Taxonomy Extension Definition Linkbase Document.                                                     |
| 101.LAB* | Inline XBRL Taxonomy Extension Label Linkbase Document.                                                          |
| 101.PRE* | Inline XBRL Taxonomy Extension Presentation Linkbase Document.                                                   |
| 104*     | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).                        |

\* Filed herewith

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 22, 2022

**Mega Matrix Corp.**

By: /s/ Yucheng Hu  
Yucheng Hu  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Qin (Carol) Wang  
Qin (Carol) Wang  
Chief Financial Officer  
(Principal Financial Officer)